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TIMPANOGOS ACADEMY FOUNDATION FINANCIAL STATEMENTS

For the years ended June 30, 2005 and June 30, 2004

PRO AMORE ERUDITIONIS

For the Love of Learning

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Timpanogos Academy Foundation

We have audited the statements of financial position of Timpanogos Academy Foundation (a nonprofit organization) as of June 30, 2005 and 2004 and the related statements of activities and cash flows for the years ended June 30, 2005 and 2004. These financial statements are the responsibility of Timpanogos Academy Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Timpanogos Academy Foundation as of June 30, 2005 and 2004 and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005 on our consideration of Timpanogos Academy Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Squire & Company, PC

August 19, 2005

**TIMPANOGOS ACADEMY FOUNDATION
STATEMENTS OF FINANCIAL POSITION**

	June 30, 2005	June 30, 2004
Assets		
Current assets		
Cash and cash equivalents	\$ 669,525	\$ 265,641
Accounts receivable.....	13,169	69,662
Prepaid expenses	1,467	490
Other current assets.....	3,055	9,659
Total current assets	687,216	345,452
Property and equipment, net of accumulated depreciation	1,768,543	1,568,645
Construction in progress	922,536	----
Other long-term assets	----	23,000
Total assets	\$ 3,378,295	\$ 1,937,097
Liabilities and net assets		
Current liabilities		
Accounts payable.....	\$ 1,756	\$ 10,596
Accrued payroll and other expenses.....	38,020	42,279
Current portion of long-term note payable.....	19,279	32,882
Deferred revenue	169,245	186,119
Construction note payable.....	922,536	----
Total current liabilities	1,150,836	271,876
Long-term note payable.....	711,530	722,569
Total liabilities	1,862,366	994,445
Net assets		
Unrestricted:		
Designated for property and equipment, net of related debt..	1,037,733	813,194
Unrestricted and undesignated	468,196	127,558
Temporarily restricted:		
Restricted for specific activities	10,000	1,900
Total net assets	1,515,929	942,652
Total liabilities and net assets	\$ 3,378,295	\$ 1,937,097

The accompanying notes are an integral part of these financial statements.

**TIMPANOGOS ACADEMY FOUNDATION
STATEMENTS OF ACTIVITIES**

	Year ended June 30, 2005	Year ended June 30, 2004
<u>Unrestricted Net Assets</u>		
Revenues and support		
Federal.....	\$ 229,807	\$ 105,928
State	1,684,353	1,342,911
Contributions.....	33,034	32,530
Total revenues and support.....	<u>1,947,194</u>	<u>1,481,369</u>
Expenses		
Program services - Elementary school		
Salaries	673,199	609,756
Benefits	248,276	201,517
Professional and technical services	8,648	13,988
Purchased property services	55,307	22,474
Other purchased services.....	31,233	29,038
Supplies and materials.....	144,746	113,361
Property	95,990	74,220
Other expenses	103,544	85,410
Total program services expenses	<u>1,360,943</u>	<u>1,149,764</u>
Administrative expenses		
Salaries	8,509	17,581
Benefits	1,963	5,810
Professional and technical services	10,602	17,985
Total administrative expenses.....	<u>21,074</u>	<u>41,376</u>
Total expenses	<u>1,382,017</u>	<u>1,191,140</u>
Total increase in unrestricted net assets	<u>565,177</u>	<u>290,229</u>
<u>Temporarily Restricted Net Assets</u>		
Restricted contributions	<u>8,100</u>	<u>1,900</u>
Change in net assets	573,277	292,129
Net Assets at Beginning of Year	942,652	650,523
Net Assets at End of Year	<u>\$ 1,515,929</u>	<u>\$ 942,652</u>

The accompanying notes are an integral part of these financial statements.

**TIMPANOGOS ACADEMY FOUNDATION
STATEMENTS OF CASH FLOWS**

	Year ended June 30, 2005	Year ended June 30, 2004
Cash flows from operating activities		
Change in net assets.....	\$ 573,277	\$ 292,129
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense.....	86,046	69,849
Loss on disposal of property and equipment.....	489	5,811
Loss on steel frame building deposit.....	23,000	----
In-kind donations of property and equipment.....	(7,264)	(4,700)
Changes in operating assets and liabilities:		
Accounts receivable.....	56,493	(52,016)
Prepaid expenses.....	(977)	3,901
Other current assets.....	6,604	654
Accounts payable.....	(8,840)	4,012
Accrued payroll and other expenses.....	(4,259)	(111,330)
Deferred revenue.....	(16,875)	130,666
Net cash provided by operating activities.....	<u>707,694</u>	<u>338,976</u>
Cash flows from investing activities		
Cash used to purchase long-term assets.....	----	(23,000)
Cash used to purchase property and equipment.....	(279,168)	(302,676)
Cash used for investing activities.....	<u>(279,168)</u>	<u>(325,676)</u>
Cash flows from financing activities		
Cash received from note payable.....	----	771,065
Principal payments on note payable.....	(24,642)	(794,999)
Net cash used for financing activities.....	<u>(24,642)</u>	<u>(23,934)</u>
Net increase (decrease) in cash.....	403,884	(10,634)
Cash at beginning of year.....	265,641	276,275
Cash at end of year.....	<u>\$ 669,525</u>	<u>\$ 265,641</u>

See Note 6 of Notes to Financial Statements for supplemental disclosures for non-cash investing and financing activities.

The accompanying notes are an integral part of these financial statements.

TIMPANOGOS ACADEMY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND ACTIVITIES

The Timpanogos Academy Foundation (the "Foundation") was incorporated on April 6, 2001, and is operated as a nonprofit organization. The Foundation operates Timpanogos Academy, a charter school located in Lindon, Utah. For the fiscal year ended June 30, 2005, students were enrolled in classes from kindergarten through seventh grade.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and nature of any donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Foundation is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and has received a determination letter in this regard. The Foundation is considered a public charity.

Revenue Recognition

The primary source of operating funds for the Foundation is the State of Utah (the "State") as administered by the Utah State Office of Education. The Foundation also receives funding from federal grants and from cash contributions. Non-cash revenue sources include donated property and services.

The Foundation receives funding from the State based on the number of students enrolled in its school. The State provides unrestricted funding for normal school operations and restricted funds for specific school-related activities or functions. Unrestricted funding is recognized as revenue when received. Restricted funding is recognized as revenue when qualifying expenses are incurred. Funding for which qualifying expenses have not been incurred is recorded as deferred revenue in the Foundation's Statements of Financial Position. See Note 10, Deferred Revenue.

TIMPANOGOS ACADEMY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

The Foundation also receives federal charter school grants, which are passed through the Utah State Office of Education. Funds are generally received on a reimbursement basis and, accordingly, revenues relating to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met.

Unrestricted contributions are recognized as revenue when received. Restricted contributions received are recorded as increases in temporarily restricted or permanently restricted net assets depending on the nature of the restriction. Temporarily restricted revenue is reclassified as unrestricted when the terms of the restrictions are met.

Cash and Cash Equivalents

The Foundation maintains its cash and cash equivalents balances in operating accounts with financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). For the year ended June 30, 2004, the Foundation did not invest in debt or equity securities and, as of June 30, 2004 held no investments or other financial instruments. For the year ended June 30, 2005, the Foundation utilized an interest bearing sweep facility and invested deposited funds above \$100,000 in low-risk overnight repurchase agreements.

Accounts Receivable and Allowance for Doubtful Accounts

As of June 30, 2004, the Foundation had accounts receivable of \$69,662 due from the State related to reimbursable funds expended under a federal pass-through grant administered by the State. As of June 30, 2005, the Foundation had accounts receivable of \$13,169 due from the State related to Reading Achievement funds awarded to the school during the fiscal year, but not received as of June 30, 2005.

The Foundation makes judgments about its ability to collect outstanding accounts receivable. If necessary, the Foundation establishes an allowance when collection becomes doubtful, based primarily on the aging of each specific invoice. As of June 30, 2005 and June 30, 2004, the Foundation had not recorded any reserves against outstanding accounts receivable.

Property and Equipment

The Foundation's property and equipment consists of land, building, improvements, purchased and donated furniture and equipment, computer hardware and computer software.

Purchases of land are recorded at cost and are not depreciated. Building purchases are recorded at cost and depreciated, using the straight-line method, over 30 years. Purchases of improvements, furniture, equipment, computer hardware or computer software over \$1,000 are recorded at cost and depreciated over useful lives of three to ten years using the straight-line method. Construction in progress includes the cost of all labor, materials and financing costs related to facilities under construction that were incurred prior to June 30, 2005. See Note 9, Property and Equipment.

TIMPANOGOS ACADEMY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Donated Services

Many individuals volunteer their time and perform a variety of tasks that assist the Foundation with a number of school-related programs, administration, and Board of Directors responsibilities. The Foundation records revenue and a corresponding expense for donated services requiring specialized skills that it would otherwise purchase. Donated services for which revenue was recognized in the years ended June 30, 2004 and June 30, 2005 included information technology support and accounting and other financial services. See Note 12, Contributions.

Due to the diverse nature and the large quantity of services donated to the Foundation's charter school, it is not practical to accumulate and disclose the fair value of the services donated but not recorded as revenue in the Foundation's Statements of Activities.

Contributed Equipment and Supplies

Contributions of equipment and other supplies are recorded as revenue using the estimated fair value at the time of the donation. These contributions are recorded as increases in unrestricted net assets unless the contributor restricts the use of the property to a specific purpose in which the Foundation has not yet engaged. Donations which have a fair value that exceeds the Foundation's capitalization threshold of \$1,000 are capitalized and depreciated according to the Foundation's capitalization and depreciation policy.

Allocation of Expenses

Directly identifiable expenses are charged to programs and supporting services. Management and general expenses include those expenses that are not directly identifiable with any specific function, but provide for the overall support and direction of the Foundation.

NOTE 3. CASH

At June 30, 2005, the Foundation reported book balance of \$669,525 and a bank balance of \$692,710, of which \$133,941 was covered by federal depository insurance. Of the total cash and cash equivalents balance, \$541,870 was held in overnight repurchase agreements.

TIMPANOGOS ACADEMY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 4. REVENUE

Total revenue recognized by the Foundation during the years ended June 30, 2005 and June 30, 2004 was as follows:

	Year ended June 30, 2005	Year ended June 30, 2004
Revenue from State sources:		
Funding for school operations	\$ 1,684,353	\$ 1,342,911
Revenue from Federal sources:		
Charter school start-up grant	229,807	105,928
Contributions:		
Cash contributions and fees	20,358	2,315
Earnings on cash reserves	4,687	----
Fund raising activities, net of costs of \$0 in 2005 and \$0 in 2004	1,026	5,494
Contributions of supplies, property and equipment	8,063	6,301
Contributions of services	7,000	20,320
Total contributions	41,134	34,430
Total revenues and support	\$ 1,955,294	\$ 1,483,269

NOTE 5. NOTES PAYABLE

During the year ended June 30, 2003, the Foundation financed the purchase of its building by entering into a \$909,000, 30-year note, payable to a limited partnership, collateralized by land and a school building in Lindon, Utah. The note bore interest at a variable rate equal to the lender's borrowing rate plus 1%, with monthly payment terms. From the inception of the note through June 30, 2003, the average interest rate on the note was 7.5%, and the Foundation incurred \$44,734 of interest expense associated with the note. During the year ended June 30, 2004, and prior to the retirement of this note, the Foundation incurred interest expense related to this note of \$29,632.

During the year ended June 30, 2004, the Foundation refinanced the debt related to its land and a school building and secured a note payable to a commercial bank (the "New Note"). The Foundation used approximately \$760,000 of the proceeds received from the New Note to retire the note payable to the limited partnership. The New Note is a five-year renewable note with payments based on a 15-year payment schedule with an initial balance of \$771,065. The New Note bears interest at a variable rate and is secured by land and a school building in Lindon, Utah. From inception through June 30, 2004, the average interest rate on the New Note was 6.25% and the Foundation incurred interest expense of \$24,292 on the New Note.

TIMPANOGOS ACADEMY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

For the year ended June 30, 2005, the average interest rate on the New Note was 6.9% and the Foundation incurred interest expense of \$55,172 on the New Note. As of June 30, 2005, the balance owing on the note was \$730,809. The following schedule represents the principal maturities on the note payable:

<u>June 30,</u>	
2006	\$ 19,279
2007	22,173
2008	24,073
2009	<u>665,284</u>
Total	730,809
Current portion	<u>(19,279)</u>
Long-term portion	<u>\$ 711,530</u>

On November 22, 2005, the Foundation retired the New Note. See Note 17, Subsequent Events.

NOTE 6. SUPPLEMENTAL CASH FLOW DISCLOSURES

The Foundation had the following non-cash investing and financing activities during the years ended June 30, 2005 and June 30, 2004:

	<u>Year ended June 30, 2005</u>	<u>Year ended June 30, 2004</u>
Non-cash investing activities.....	\$ (922,536)	\$ ----
Non-cash financing activities	\$ 922,536	\$ ----

The non-cash investing and financing activities for the year ended June 30, 2005 related to construction in progress on the Foundation's middle school facility and the associated construction note payable to the contractor. The Foundation had no non-cash investing or financing activities for the year ended June 30, 2004.

During the year ended June 30, 2005, the Foundation paid \$55,172 in interest and during the year ended June 30, 2004, the Foundation paid \$55,179 in interest. During both years, the interest payments were primarily related to payments on the notes payable secured by the Foundation's school building.

The Foundation paid no cash for income taxes during the years ended June 30, 2005 and June 30, 2004.

TIMPANOGOS ACADEMY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 7. OTHER CURRENT ASSETS

Other current assets at June 30, 2005 consisted primarily of a \$1,000 deposit on space leased for a 7th grade class, approximately \$856 due from sales tax refunds, and \$1,200 of textbook vendor credits. At June 30, 2004, other current assets related to credits from vendors and \$7,700 in sales tax refunds due from the State. Given the Foundation's tax exempt status, the Foundation is eligible to be reimbursed for sales tax paid in association with its purchases of goods.

NOTE 8. OTHER LONG-TERM ASSETS

During the year ended June 30, 2004, the Foundation placed a \$23,000 deposit on a steel frame it expected to use in the construction of its middle school facility. During the year ended June 30, 2005, the Foundation determined it would not use the steel building for construction purposes, but would sell the steel frame and construct a middle school facility similar to its existing elementary school facility. The Foundation actively marketed the steel frame but was not able to locate a buyer. As such, during the year ended June 30, 2005, the Foundation recorded an impairment for the full amount of the deposit and cancelled the agreement with the seller.

NOTE 9. PROPERTY AND EQUIPMENT

The cost of the Foundation's property and equipment and the corresponding useful lives are as follows:

	Useful life	June 30, 2005	June 30, 2004
Land.....	-	\$ 747,168	\$ 590,000
Building	30 years	885,960	885,960
Land and building improvements.....	4-10 years	141,303	94,522
Furniture and fixtures.....	5 years	23,059	8,834
Equipment.....	3-5 years	81,836	45,637
Computer hardware.....	3 years	69,349	50,799
Computer software	3 years	20,179	7,894
Total property and equipment at cost.....		1,968,854	1,683,646
Less accumulated depreciation		(200,311)	(115,001)
Net property and equipment.....		<u>\$ 1,768,543</u>	<u>\$ 1,568,645</u>

Depreciation expense was \$86,046 for the year ended June 30, 2005 and \$69,849 for the year ended June 30, 2004.

TIMPANOGOS ACADEMY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 10. DEFERRED REVENUE

Deferred revenue consists of cash received from the State that is required to be used for specific school-related activities for which the Foundation has not incurred the associated qualifying expenses. Deferred revenue for the years ended June 30, 2005 and June 30, 2004 is as follows:

	June 30, 2005	June 30, 2004
Deferred retirement revenue	\$ -----	\$ 48,153
Deferred local discretionary block grant revenue.....	35,299	17,571
Deferred special education add-on and self-contained revenue	39,655	-----
Deferred teacher professional development revenue.....	28,702	25,505
Deferred interventions revenue	20,306	9,659
Deferred trust land revenue.....	19,513	10,051
Reading achievement.....	13,169	----
Deferred class size reduction revenue.....	----	60,732
Other deferred revenue	12,601	14,448
Total deferred revenue	<u>\$ 169,245</u>	<u>\$ 186,119</u>

NOTE 11. NET ASSETS

Net assets as of June 30, 2005 included unrestricted net assets of \$1,505,929 and temporarily restricted net assets of \$10,000. Net assets at June 30, 2004 included unrestricted net assets of \$940,752, and temporarily restricted net assets of \$1,900. At June 30, 2005, unrestricted net assets of \$1,037,734 were invested in capital assets, net of related debt while at June 30, 2004, unrestricted net assets of \$813,194 were invested in capital assets, net of related debt. Temporarily restricted net assets at June 30, 2004 and June 30, 2005 related to donations which included specific requirements that had not been met at June 30, 2004 and June 30, 2005 respectively.

NOTE 12. CONTRIBUTIONS

During the years ended June 30, 2005, and June 30, 2004, the Foundation received contributions of cash, supplies and equipment, and services. The Foundation used the cash, supplies, equipment and information technology support services in operating its charter school. The expenses associated with these uses are recorded in the Foundation's Statements of Activities as program expenses. The accounting and financial services relate to the Foundation's administrative activities and are reported as administrative expenses in the Foundation's Statements of Activities.

In addition to the contributions recognized as revenue, many individuals volunteer time to perform a variety of tasks that assist the Foundation with administrative tasks and school operations. Members of the Foundation's Governing Board serve without compensation.

TIMPANOGOS ACADEMY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 13. TEACHER RETIREMENT PLANS

During the year ended June 30, 2003, the Foundation established a defined contribution, tax-deferred retirement plan under Section 403(b) of the Internal Revenue Code that is available to all full-time employees. During the year ended June 30, 2004, employees contributed \$18,000 to the 403(b) retirement plan, and the Foundation made a discretionary contribution of \$19,422 to the 403(b) retirement plan.

During the year ended June 30, 2005, the Foundation terminated the 403(b) plan and established a defined contribution, tax-deferred retirement plan under Section 401(k) of the Internal Revenue Code. Upon termination of the 403(b) plan, the discretionary contributions the Foundation made to 403(b) plan participants became fully vested and were transferred to participants' accounts in the 401(k) plan.

During the year ended June 30, 2005, employees contributed approximately \$13,950 to the 401(k) plan, and the Foundation made discretionary contributions of \$89,414 to the 401(k) plan.

The Foundation receives funding from the State to be used for employee retirement plans. For the year ended June 30, 2004, the Foundation contributed \$19,422 of these funds to the 403(b) plan, as discussed above. In addition, during the year ended June 30, 2004, the Foundation made payments required by State law of approximately \$139,000 to the Utah State Employees Retirement System, (the "URS"), a defined benefit retirement plan administered by the State, on behalf of teachers and staff.

Legislation passed during the year ended June 30, 2004 allowed Utah charter schools a one-time option to discontinue their participation in the URS. Accordingly, the Foundation's Governing Board voted to discontinue the Foundation's participation in the URS. The Foundation paid all obligations to the URS through June 30, 2004, and has formally withdrawn from the URS.

NOTE 14. ACCRUED PAYROLL AND OTHER EXPENSES

The Foundation records accrued liabilities for payroll and other expenses that are obligations of the Foundation but have not yet been paid. Accrued liabilities as of June 30, 2005 and June 30, 2004 include:

	June 30, 2005	June 30, 2004
Accrued payroll and payroll taxes.....	\$ 26,575	\$ 33,218
Other accrued operating expenses	11,445	9,061
Total accrued liabilities.....	<u>\$ 38,020</u>	<u>\$ 42,279</u>

NOTE 15. COMPENSATED ABSENCES

The Foundation's employees receive personal leave and sick leave benefits. Excess personal leave is paid to employees at the end of each school year while sick leave benefits are not paid, but carry over to the subsequent school year. The Foundation records as an obligation the amount of unpaid personal leave, up to the amount of funding available in the current period. The Foundation is not liable for any unfunded, unpaid compensated absences.

TIMPANOGOS ACADEMY FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 16. RELATED PARTY TRANSACTIONS

The Foundation did not engage in any related party transactions during the years ended June 30, 2004 and June 30, 2005.

NOTE 17. SUBSEQUENT EVENTS

Middle School Facility

Subsequent to the year ended June 30, 2005, construction was completed on the Foundation's Middle School facility. The total cost of the land and the facility was approximately \$1,623,000 including approximately \$157,000 for the land on which the facility now resides and \$66,000 of interest associated with construction financing. The cost of the land is included in Property and Equipment on the Foundation's Statement of Financial Position as of June 30, 2005, and the value of the construction labor, materials and accrued interest as of June 30, 2005 is presented as \$922,536 of Construction in Progress with an associated Construction Note Payable.

Series A School Facility Revenue Bonds

On November 22, 2005, the Foundation entered an agreement with Utah County and Wells Fargo Bank National Association (the "Bank") whereby Utah County issued \$1,950,000 of School Facility Revenue Bonds, Series 2005, which were purchased solely by the Bank. Utah County assigned the proceeds and all associated liabilities to the Foundation. The bond agreement requires monthly interest payments and annual principal payments for 15 years.

The bond agreement includes a financial covenant that requires the Foundation to maintain an increase of net assets not including interest and depreciation of 1.25 times its annual minimum debt service payments. The Foundation is also required to maintain its primary depository accounts with the Bank. The agreement also requires the Foundation to maintain its tax-exempt status.

Concurrent with the issuance of the Bonds, the Foundation entered into an interest rate swap agreement with the Bank which fixed the interest rate on the Bonds for the full 15 year term of the bonds.

The future annual principal payments required on the bonds are as follows:

<u>June 30,</u>	
2006	\$ -
2007	90,000
2008	90,000
2009	95,000
2010	100,000
2011-2015	600,000
2016-2020	790,000
2021	<u>185,000</u>
Total	<u>\$ 1,950,000</u>



**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards**

Board of Directors
Timpanogos Academy Foundation

We have audited the financial statements of Timpanogos Academy Foundation (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Timpanogos Academy Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Timpanogos Academy Foundation in a separate letter dated August 19, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Timpanogos Academy Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. Timpanogos Academy Foundation did not comply with the State of Utah Procurement Policy as contained in Utah Administrative Code 63-56, which requires a competitive bidding process for construction contracts. The Timpanogos Academy Foundation did not obtain competitive bids for the construction and for the interim financing of its middle school facility. We also noted additional matters that we have reported to management of Timpanogos Academy Foundation in a separate letter dated August 19, 2005.

This report is intended solely for the information and use of the Board of Directors, management, and federal and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

Agui & Company, PC

August 19, 2005



Independent Auditor's Report on Legal Compliance
in Accordance with the *State of Utah*
Legal Compliance Audit Guide

Board of Directors
Timpanogos Academy Foundation

We have audited the financial statements of Timpanogos Academy Foundation (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 19, 2005. As part of our audit, we have audited Timpanogos Academy Foundation's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to its major state assistance program as required by the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2005. Timpanogos Academy Foundation received the following major state assistance program from the State of Utah (passed through the State Office of Education):

Minimum School Program

The management of Timpanogos Academy Foundation is responsible for the Academy's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Timpanogos Academy Foundation complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to its major state assistance program for the year ended June 30, 2005.

Squire & Company, PC

August 19, 2005



Letter to Management

Board of Directors
Timpanogos Academy Foundation

In planning and performing our audit of the financial statements of Timpanogos Academy Foundation, for the year ended June 30, 2005, we noted certain matters for your consideration. This letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated August 19, 2005, on the financial statements of the Academy. Also, reportable conditions and material internal control weaknesses, if any, are included in our report dated August 19, 2005, in accordance with *Government Auditing Standards*.

Procurement Policies and Procedures – We noted that the Academy did not follow applicable State and Federal procurement guidelines which require a competitive bidding process for contracts in the construction of its middle school facility. We encourage the Academy to document procurement policies to ensure compliance with State and Federal guidelines.

Views of Responsible Officials – The Foundation's governing board acknowledges that it did not complete a competitive bid process. However, prior to executing the middle school agreement, the governing board considered other options for its middle school facility, including gathering estimated costs. In addition, the cost of construction for the project was below local school district costs and below similar charter school construction projects. The Foundation maintains that the middle school project was in the best interest of the Foundation and reflects proper use of public funds.

The Foundation complies and will continue to comply with State purchasing guidelines in other areas of operations. The Foundation's governing board will provide additional education to employees involved in the purchasing process to ensure ongoing compliance.

Employee 401(k) deferrals – We noted the Academy did not remit employee deferrals to the 401(k) plan in a timely manner. We recommend that the Academy review the requirements for remitting employee contributions and remit payments to the plan to prevent potential penalties.

Views of Responsible Officials – The Foundation's governing board acknowledges this deficiency. Subsequent to June 30, 2005, the Foundation provided a compensating contribution the participants' accounts. Further, the Foundation is in the process of automating its contribution process to facilitate deferrals being paid to participants' accounts in a timely manner.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the Academy's personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We appreciated the assistance of Academy personnel during the audit.

Squire & Company, PC

August 19, 2005